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**FISCALLY FIT**

 By TERRI  
 CULLEN


## A Columnist's Mistake

**After Missing a Credit-Card Payment (Twice!)  
 Terri Weighs the Damage to Her Credit Score**

*May 11, 2006*

I screwed up -- and my once-sterling credit score is tarnished.

Yes, Virginia, even personal-finance columnists make boneheaded moves with money. My blunder: signing up for an Ann Taylor charge card, then misplacing the statement and forgetting to pay the bill.


How could I have let this happen? I used to pat myself on the back for being a model of bill-paying efficiency: I use Quicken to send myself monthly due-date reminders (which I'd usually pay online immediately after receiving them), and I take advantage of companies' automatic bill-payment programs.

Ironically, these good habits were my downfall -- I'd become dependent on technology to keep track of what I owed each month, to whom, and when. The due-date reminder, and the ability to pay the bill a few keystrokes later, has virtually eliminated my old monthly ritual of writing out checks, figuring out how much stamps cost this week and remembering to take the bills to the mailbox. (Truth be told, I've become lazy with all paper correspondence. Enrollment paperwork for my son's new summer camp has sat on my counter for more than a week -- and yes, curious readers, we decided to go with [the more expensive camp](#)<sup>1</sup>.)

Even more aggravating: I normally turn down any store-card offer. During my college years I responded to the siren call of easy credit and ended up ruining my credit score -- by the time I graduated I had a dozen store cards, most maxed out and each racking up finance charges north of 20%. It took years to dig myself out of that chasm, and it drove home the need to avoid cards that charge loan-shark rates.

But the day I opened the Ann Taylor charge account I was making an unusually large purchase, and the

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### ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" column every Thursday for the Wall Street Journal Online, in addition to other weekly personal-finance articles and features.

Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best national financial columnist. Terri also is a contributor to the book, "The Wall Street Journal Online's Guide to Online Investing," which was published in 2000.

**Send your comments** about "Fiscally Fit" to Terri at [fiscallyfit@wsj.com](mailto:fiscallyfit@wsj.com)<sup>6</sup>.

store's offer of 20% off my first purchase was hard to pass up. Becoming a cardholder would knock \$60 off my purchase after taxes. I thought, "Eh, what's the harm?" I'd take the discount, pay off the card online as soon as I register my account on the Web site, then mail a letter to the company requesting that the account be closed. But then life got in the way: I didn't register online right away, and then forgot. When the first month's paper statement arrived in the mail, I thought, "Oh yeah, I need to register online and pay this thing off." And then I forgot about *that*.

The following month, I did it again.

By the end of the second month, I received a nasty-gram demanding payment -- the kind of collection letter that used to set off a wave of anxiety back in my freewheeling borrowing days. I wrote a check for the full-amount owed immediately and mailed a letter requesting that the account be closed. But the retailer had already notified credit-reporting companies that my account was more than 60 days past due. Insult to injury: The late payments kicked the finance charges on the account up to an eye-popping default rate of 31.24% from the 0% introductory offer for the first six months. The higher finance charges, and \$30 in late-payment fees, added up to \$123.75 -- more than twice the discount I'd received for enrolling. Nice.

Gerry was more annoyed that I'd forgotten to pay a bill than he was about the \$123.75. What worried me most, though, was the damage I'd done to my credit score -- that magic number between 300 and 850 that lenders and other creditors use to determine how creditworthy you are. And it's not just them: Insurers also use credit scores as part of a formula that calculates how likely it is that you'll file a claim, which means lower credit scores translate to higher premiums. (One [government-sponsored study](#)<sup>2</sup> found people with bad credit scores are twice as likely to file a claim.)

The late payments had damaged my credit score. But how badly? Back in 2003, when Gerry and I refinanced our mortgage, our broker told us we had excellent credit scores and qualified for the lowest rate. That meant our scores were in the high 700s, the level at which most creditors offer the best deals. To find out the price of my absentmindedness, I logged onto MyFico.com and ordered my credit scores. (Each of the three major credit-reporting agencies -- Experian, Equifax and Transunion -- has its own scoring system.) MyFico charges \$14.95 for each score, but with a quick Google of "myfico discount code" I found the promotional code "CPPSAVINGS." That knocked 20% off my order, for a total of \$35.88 to access my scores online. (For those keeping score, between late fees, finance charges and the credit-score order, that \$60 discount has now cost me nearly \$100.)

## KEEPING SCORE

How much you might pay on a \$216,000, 30-year fixed-rate mortgage depends in large part on your credit score. (Individuals with scores below 620 may be turned down for loans.)

Your Score	Your Interest Rate	Your Monthly Payment
<b>760-850</b>	6.28%	\$1,334
<b>700-759</b>	6.50	1,365
<b>680-699</b>	6.68	1,391
<b>660-679</b>	6.89	1,421
<b>640-659</b>	7.32	1,484

It wasn't necessary to request a copy of my credit reports because MyFico explains what positive and negative factors are affecting my credit score. (If I wanted to look at the actual reports, however, I could have requested one free report from each of the three credit-reporting companies at [Annualcreditreport.com](#).)

Once ordered, credit scores can be viewed online immediately. My scores ranged from 724 to 731, though my goof had easily knocked off around 50 points from

620-639

7.78

1,565

Source: MyFico.com

each. Craig Watts, a spokesman for Fair Isaac, which operates MyFico.com, says every lender factors scores differently, so

it's tough to say how the drop in score might affect my creditworthiness. Still, he says, "it's unlikely that you'd be turned down for credit or pay higher finance rates than most people." I now may not qualify, however, for the very best deals around. (The chart to the left shows how I might fare trying to obtain a mortgage with my current score.)

Luckily, we're not planning to borrow in the near-future, and my credit lines haven't been affected by the negative statements on my credit reports. At least not so far: Many credit-card companies impose sharply higher penalty rates on cardholders who miss payments with other creditors, a practice called universal default.

My biggest concern now is whether our insurance premiums will go up. Insurance companies examine credit reports to try and weed out people who engage in risky behaviors, and a spotty payment history on a credit report is one red flag.

Since this is the first new negative comment to appear on my reports in more than 15 years, I'm hoping my insurance premiums don't increase too sharply come renewal time. Thankfully, Gerry's excellent credit score remains unscathed, which may help mitigate a bump in premiums.

Unfortunately, there's not much I can do right now to boost my score: The negative comment will stay on my credit reports for seven years. But Mr. Watts notes my score will slowly improve over the years as I make timely payments to all our creditors going forward, and recommended that I avoid opening new accounts, each of which will ding your score. Store and gasoline credit cards can also hurt your credit score because they generally have lower credit limits that are easier to max out. Borrowing more than 50% of your outstanding credit line can hurt your score. ([Click here](#)<sup>3</sup> for more tips on improving your credit score.)

And, of course, I can make sure no bills fall by the wayside again. Lesson learned.

*Got a financial screw-up bigger than mine that you're willing to admit? Share it with me at [fiscallyfit@wsj.com](mailto:fiscallyfit@wsj.com)<sup>4</sup>. I also want to know what you do to ensure bills don't fall through the cracks.*

*Readers responding to last week's column on my father's insurance woes offered their own insights on dealing with a financially needy family member. (As always, letters have been edited.)*

\* \* \*

*Deciding whether or not to lend money to a relative is a difficult line to walk at best. Our approach is to let the circumstances be the deciding factor. If a family member gets sick or has an accident, we're happy to help with the essentials as best we can. On the other hand, if a brother wants to serve champagne costing \$200 a bottle at his son's wedding with 300 guests, we're not inclined to foot that bill with a loan.*

*We view these loans as gifts. We would take the same steps you did with the insurance payments by offering to make the payments directly to the company rather than to the family member who would in turn send their own check -- it gives me the confidence that the payments will be made rather than used for some other*

*"emergency."*

*There is also the emotional component to consider. Our philosophy is that it's better to regret making the loan than to regret not making the loan in circumstances like those you faced with your father. I'm not sure which goes gray first as you get older -- your hair or the areas that seemed so black and white when you were younger.*

**-- Kurt Helm**

*Your article brought back memories: Before our parents passed away my twin brother and I had to supplement their Social Security benefits. Our philosophy was simple -- in our first 13 years of life we needed their help, so it made sense that we return the favor.*

**-- Barry S. Cohn**

*While my circumstances are a bit different, I can relate to the issue your husband has in dealing your father's requests. My mother, who is 90, has become progressively more hostile to me over the last few years, even though of four children I'm the only one who still speaks to her. My wife has a huge issue with the demands my mother makes on my time. I am very thankful that she doesn't have financial worries; however, she accuses me of "stealing" from her whenever I explain that she has to pay a late bill or rent that's overdue. All I can say is that while I'm not expecting anyone to think my mother is a saint, I do feel obligated to keep the basic living essentials in line for her.*

**-- Craig Lindsay**

*How I empathized with your article on helping your dad. My father changed jobs a lot, had a wife who would not control her spending, and had his first heart attack at 42. He took disability retirement at 60 but had no pension. For the next 15 years I provided my parents with a monthly allowance and paid for a small townhouse. My siblings were in no position to help.*

*Why did I do it? I have seen what the lack of money can do to people and relationships. I vowed that money would never be a card to be played in my family. If I was adequately covered and saving, the rest could go to charity or my family. I never discussed it as a loan: For support to be worry-free it should come without strings. I was rational in my support and paid for specific items, like you offered on insurance. While having adequate money to survive is important, beyond that it is only money. Could I have been tougher? Sure -- but I am sure that my parents lived longer with their worries lessened, and they then shared that peace with grandchildren and others. If you decide to help, just do it -- let the rest of the baggage go.*

**-- Darcy L. Walker**

*I've only received two requests for loans. One came from my brother 13 years ago, right when we were within weeks of buying a house. My wife Kate and I talked it over and I sent a check for \$1,000, with a promise of another \$1,000 if necessary. This check was taken out of my account -- we use the "his, hers and ours" system for managing money.*

*The second time was just after my mother died in 2005. She had allowed my sister to use her credit card for*

*things like gasoline and food. When Mom died, the credit card was stopped. I knew from starting to organize Mom's finances that day-to-day expenses were going to be a problem for my sister. I sent her \$2,500 temporarily until we could get the modest estate settled. This loan too came from my funds.*

*Internally, we haven't had major arguments about expenses or loans, mostly because we originally set up our "his, hers and ours" bank accounts to avoid the problem. We always talk over things, but in the final round, the only critical discussion is whether it should come out of the "ours" account.*

**-- David Bell**

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